SASKATCHEWAN FOREST PRODUCTS CORPORATION 1982 ANNUAL REPORT

38TH ANNUAL REPORT

SASKATCHEWAN FOREST PRODUCTS CORPORATION

YEAR ENDED OCTOBER 31, 1982

Regina, Saskatchewan
February 1, 1983

To His Honour,
The Honourable C. Irwin McIntosh,
Lieutenant Governor of the Province of Saskatchewan.

Sir:

I have the honour to submit herewith the annual report of Saskatchewan Forest Products Corporation for the year ended October 31, 1982 including the financial statements therefor, duly certified by the Corporation's auditors and in the form approved by the Treasury Board, all in accordance with The Crown Corporations Act, 1978.

I have the honour to be, Sir,

Your obedient servant,

Neal Hardy,
Minister Responsible,
Saskatchewan Forest Products
Corporation

Bucking sawlogs

Peeler logs for Hudson Bay Plywood Plant

SASKATCHEWAN FOREST PRODUCTS CORPORATION

Board of Directors

Honourable Neal Hardy, Chairman — Hudson Bay

Honourable George McLeod — Meadow Lake

Harvey Berg — Weekes

Pat Hill — Saskatoon

Armand Quessy — Debden

Alfred Sauder — Carrot River

Secretary to the Board

Ronald J. Kruzeniski — Regina

Unloading sawlogs at Big River Sawmill

Corporation Officers and Management

Norman S. Denmark	— General Manager
Donald A. Taylor	— Manager, Finance and Administration
Brian E. Firby	— Manager, Woods
Henry A. Peters	— Manager, Marketing

Division Management

Rolland N. St. Louis	— Manager, Plywood Division, Hudson Bay
Samuel Miller	— Manager, Big River Sawmill Division, Big River
Archibald E. Kiteley	— Manager, Carrot River Sawmill Division, Carrot River
Howard R. Cockwill	— A/Manager, Wood Preserving Division, Prince Albert

Retail Yard Management

Robert G. Peterson	— Manager, Prince . .bert Retail Yard, Prince Albert
Harold J. Anaka	— Manager, Sturgis Retail Yard, Sturgis

Trimming lumber at Carrot River Planer

Dry piles of rough lumber

SASKATCHEWAN FOREST PRODUCTS CORPORATION

Report of the General Manager

Introduction

Economic conditions in North America continued their downward trend in 1982, resulting in another year of severely depressed markets and prices for wood products. These conditions were much more serious than in the latter half of 1981 and led to a severe curtailment in production for the Industry. Production varied across Canada with average production by regions being approximately 62% of normal for B.C., 72% for the Prairies, 55% for Ontario and Quebec and as low as 20% for the Maritimes. Conditions could be descibed as a "Depression" for the Industry. Such conditions had not been seen since the Depression of the 1930's.

The Corporation operated the same mills as in the past year: Two dimension sawmills at Big River and at Carrot River, the Plywood Plant at Hudson Bay, the Wood Preserving Plant at Prince Albert and two Retail Lumber Yards at Sturgis and Prince Albert. With the exception of the Plywood Plant, the mills ran at normal production, supplying wood chips as a by-product to the pulp mills, and waste fuel to the Prince Albert Pulp Mill from the Wood Preserving Plant. As such, the Corporation remains one of the larger employers and processors of wood within the Province.

The Corporation was also a member with Dynamid Development Corporation of Vancouver in a Joint Venture in Yorkton. A plywood overlay plant was constructed and began operations in February of 1982.

The Corporation's labour contract with the International Woodworkers of America, Local 1-184, expired on March 31, 1982 and has not been re-negotiated. The old contract remained in force at the year end.

Statement of Mission

The Corporation was established by Order-in-Council 1899 of 1949 and continues under the provisions of The Crown Corporations Act and was formed for the sole purpose of fully utilizing the available forest resources of the Province of Saskatchewan to the best of its ability and to be responsible to the people of the Province of Saskatchewan.

Patching plywood at Hudson Bay Plywood Plant

Marketing

As reflected in the Introduction, the markets were the worst since the great Depression. Prices have steadily declined over the past five years and remained at an all-time low — resulting in all-time high losses for the Forest Industry. As in the past, approximately 50% of the lumber and plywood was sold within the Province. Housing starts fell again from the 1981 levels, which in turn lowered the demand and market prices for forest products.

Finance

The Corporation experienced a loss of $10,907,000 for the fiscal year, leaving retained earnings at a deficit of $9,430,000. Sales of $21,294,000 were $9,100,000 less than the previous year due to poor market prices.

Community Relations

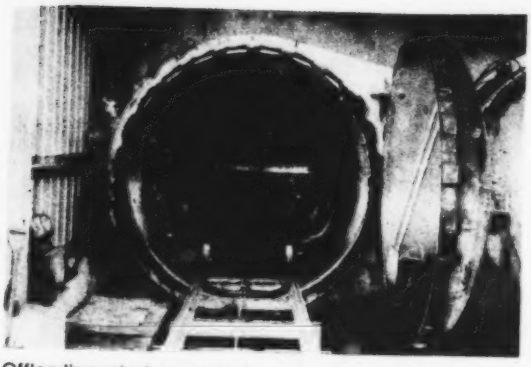
The Corporation continues to support various functions in each community where mills are established. In spite of the depressed times, Forestry Week was a success in Hudson Bay with all Industries taking part in the week-long activities.

Manufacturing

All plants operated normally with the scheduled shutdowns for maintenance, the exception being the Plywood Plant at Hudson Bay. This plant remained closed for six weeks in the late summer due to an inventory build-up brought on by adverse plywood markets. As in 1981, the demand for Preserved Wood Products declined. This resulted in a reduced production level for the Prince Albert Plant. Depressed cattle prices and markets affected the sale of Fence Posts from this plant.

1. **Hudson Bay Plywood Plant**

Plant production was again predominantly Spruce Plywood, with small amounts of Poplar and Birch plywood being produced. Markets were fair until May, when prices and demand tumbled, resulting in inventory problems and finally a closure for six weeks, ending on August 30, 1982. Prices remained abnormally low until the end of the year.



Offloading retort-preserved wood at Wood Preserving Plant, Prince Albert

SASKATCHEWAN FOREST PRODUCTS CORPORATION

Capital expenses were kept to a minimum. The Konus Waste Burner was completed, reducing the plant's consumption of Natural Gas. The Putty Patch line was rebuilt and two Pettibone log carriers were replaced by one Cat 960 unit. A small smoking area was built in the plant for safety purposes.

2. **Wood Preserving Plant — Prince Albert**

The recession of the general economy and of the cattle market in particular resulted in a much lower than anticipated demand for posts, railings, etc. Even the demand for Power Poles fell for the first time in memory. These conditions resulted in a slowdown of production and an increase in inventories over the previous year. These conditions will create a low production forecast for the coming year. Capital expenses were necessarily kept to a minimum. The only capital work performed was the rebuilding of the last 20 tram cars used in the treating retort.

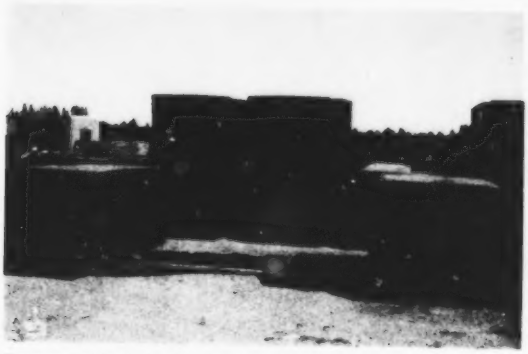
3. **Big River Sawmill** (six miles south of Big River)

Operations were normal except for the start-up of the second shift on the planer. This was delayed due to drying problems brought on by a wet spring.

Capital project work was kept to a minimum with the start of installation of the debarker being the only significant project. In the woods division normal road construction and maintenance was continued to make available the required wood supply.

4. **Carrot River Sawmill**

The mill continues to be plagued with a log supply problem due to a diminishing timber resource. The plant was able to maintain only a one-shift basis of production — or 50% of normal capacity. Sawmill Capital expenditures were nil for the year. In the woods operations, the basic amount of road work was done to allow the delivery of the year's logs to the mill. This was the same road programme as followed at the Big River Woodlands operation.



Preserved Plywood ready for shipment

5. **Retail Yards**

This was probably the worst year for the lumber retail yards in the history of the Corporation. High interest rates kept people from building or even renovating and sales fell accordingly. The only Capital Expenditure was the building of a low-cost, pole-type building at Prince Albert Retail Yard. This was needed to provide protection from the elements for items such as Plywood, etc.

The Outlook for 1983

There is guarded optimism for the 1983 housing industry and so for the Forest Industry. A number of forest companies went out of business in 1982 and another such year would spell the demise of many more in 1983. Should interest rates fall to an acceptable level and confidence return to the economy, then increased housing starts may revive the financially troubled forest industry.

Norman S. Denmark,
General Manager,
Saskatchewan Forest Products Corporation.

February 1, 1983

AUDITORS' REPORT

To the Members of the Legislative
Assembly of the Province of Saskatchewan

We have examined the statement of financial position of Saskatchewan Forest Products Corporation as at October 31, 1982 and the statements of operations and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the corporation as at October 31, 1982 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Saskatoon, Saskatchewan
December 30, 1982

Price Waterhouse

Chartered Accountants

STATEMENT OF FINANCIAL POSITION

	Note Reference	October 31 1982	1981
		(In Thousands)	
ASSETS			
Current assets:			
Cash on deposit		$ 223	$ —
Accounts receivable		3,512	3,079
Inventories	1	10,556	9,696
Prepaid expenses		684	693
		14,975	13,468
Investments	1, 3 & 4	953	522
Property, plant and equipment	1 & 5	15,123	15,453
		$31,051	$29,443
LIABILITIES AND PROVINCE'S EQUITY			
Current liabilities:			
Bank indebtedness		$ —	$ 1,406
Accounts payable and accrued		2,171	2,614
Loan due to Crown Investments Corporation of Saskatchewan		—	2,500
		2,171	6,520
Long-term notes, less current portion	6	18,198	1,334
Province of Saskatchewan's equity:	7		
Equity advances from Crown Investments Corporation of Saskatchewan		20,112	20,112
Retained earnings (deficit)		(9,430)	1,477
		10,682	21,589
		$31,051	$29,443

(See accompanying notes)

SASKATCHEWAN FOREST PRODUCTS CORPORATION

STATEMENT OF OPERATIONS AND DEFICIT

	Note Reference	Year ended October 31 1982	1981
		(In Thousands)	
Revenue:			
Sales of forest products		$21,294	$30,394
Interest and other		—	361
		21,294	30,755
Expenses:			
Operating costs		27,334	30,327
Selling, general and administrative		1,741	1,517
Depreciation and amortization	1	1,117	1,067
Interest on long-term notes	6	1,730	—
		31,922	32,911
Loss before extraordinary item		10,628	2,156
Loss on investment in joint venture	1, 3 & 4	279	—
Loss for year		10,907	2,156
Retained earnings, beginning of year		1,477	3,633
Retained earnings (deficit), end of year		$ (9,430)	$ 1,477

(See accompanying notes)

STATEMENT OF CHANGES IN FINANCIAL POSITION

	Note Reference	Year ended October 31 1982 (In Thousands)	1981
Working capital provided by:			
Increase in long-term notes — Crown Investments Corporation of Saskatchewan	6	$17,047	$ —
Working capital applied to:			
Loss for the year before extraordinary item		10,628	2,156
Depreciation and amortization	1	1,117	1,067
Total to operations		9,511	1,089
Purchase of property, plant and equipment, net	1 & 5	787	1,617
Investment in joint venture	1 & 3	431	522
Extraordinary loss on write-down of investment	4	279	—
Reduction of long-term notes	6	183	84
		11,191	3,312
Increase (decrease) in working capital		5,856	(3,312)
Working capital, beginning of year		6,948	10,260
Working capital, end of year		$12,804	$ 6,948

(See accompanying notes)

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 1982

1. Summary of accounting policies:

The following summary of significant accounting policies contains a description of the accounting methods and practices that have an important impact on the corporation's financial statements.

Inventories —

Inventories of logs and mill supplies are valued at the lower of cost or replacement cost. Inventories of lumber, plywood and treated products are valued at the lower of average cost and net realizable value.

Investments —

The corporation follows the equity method in accounting for its investment in a joint venture. The corporation's investment in co-operatives is recorded at cost with dividends being reflected in earnings when received.

Property, plant and equipment —

The costs of maintenance, repairs and minor renewals or replacements are charged to operations as they arise. The cost of major replacements, extensions and improvements are capitalized in the property, plant and equipment accounts. Government grants received in connection with the construction or expansion of production facilities are credited to the cost of such assets. On retirement or disposition of property, plant and equipment, the costs thereof and the related accumulated depreciation are eliminated from the accounts and any gains or losses are reflected in the statement of operations.

Property, plant and equipment are depreciated over their estimated useful lives primarily on the diminishing-balance basis at the following rates:

Buildings	5-10%
Machinery and equipment	6.7 - 10%
Vehicles	15%
Site improvements	4%
Office equipment	10%

2. Status of Saskatchewan Forest Products Corporation:

The corporation was established by Order-in-Council 1899 of 1949 and continues under the provisions of The Crown Corporations Act. These financial statements will be consolidated in the accounts of the Crown Investments Corporation of Saskatchewan.

3. Investments:

	October 31	
	1982	1981
	(In Thousands)	
Investment in and advances to joint venture, see note 4	$ 948	$ 518
Investment in co-operatives	5	4
	$ 953	$ 522

The corporation has a 51% interest in Western Overlay Industries, an unincorporated joint venture. During the year, the joint venture incurred a loss of $870,534 which included development costs of $115,919.

A summary of the financial position of Western Overlay Industries is as follows —

	October 31	
	1982	1981
	(In Thousands)	
Current assets	$ 297	$ 13
Property, plant and equipment	651	390
Development costs	—	116
	$ 948	$ 519
Equity and advances from Saskatchewan Forest Products Corporation	$ 948	$ 519

Under the terms of the joint venture agreement, the corporation has a prior claim on the assets of the joint venture to realize any funds it advanced or invested in Western Overlay Industries.

4. Extraordinary item:

During the year Western Overlay Industries ceased production for an undetermined period pending a return to more favourable economic conditions. At present Saskatchewan Forest Products Corporation is continuing to support the venture. The corporation has written-down the carrying value of its investment in the joint venture as at October 31, 1982. Accordingly, an extraordinary loss of $279,000 has been recorded in the 1982 financial statements to reflect this write-down of the carrying value of the corporation's investment in the joint venture.

5. Property, plant and equipment:

	October 31	
	1982	1981
	(In Thousands)	
Land	$ 480	$ 431
Building and site improvements	5,889	5,827
Roads and spur tracks	2,549	2,286
Machinery and equipment	10,944	10,576
	19,862	19,120
Less: Accumulated depreciation	4,739	3,667
	$15,123	$15,453

6. Long-term notes:

	October 31	
	1982	1981
	(In Thousands)	
Crown Investments Corporation of Saskatchewan 10% promissory note repayable in annual instalments of $83,400. Interest is only payable in years in which the corporation records net earnings.	$ 1,334	$ 1,417
Crown Investments Corporation of Saskatchewan promissory note, see below.	17,047	—
	18,381	1,417
Less: Portion due within one year classified as current	183	83
	$18,198	$ 1,334

As at October 30, 1982 the corporation had borrowed $15.4 million from Crown Investments Corporation through a series of short-term loans. On October 31, 1982 these short-term loans, together with accrued interest thereon of $1,647,000, were converted to a 15 year long-term loan. This long-term loan will bear interest at 15% for the first year, with rates to be negotiated annually thereafter. Principal repayments will be $100,000 on October 31, 1983 and $1,200,000 on each October 31 thereafter until maturity with the final payment being $1,347,000. Principal may be repaid prior to maturity without penalty. Interest is due annually.

7. The Province of Saskatchewan's equity:

The Province of Saskatchewan's equity in the corporation is made up of equity advances by the Crown Investments Corporation of Saskatchewan to the corporation since its inception, less amounts repaid or forgiven. These advances are repayable at the discretion of the Crown Investments Corporation of Saskatchewan and do not bear interest. Retained earnings (deficit) represent accumulative profits and losses of the corporation since the date of the reorganization on November 1, 1977.

8. Related party transactions:

Included in these financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown controlled departments, agencies and corporations with which the corporation is related.

Account balances resulting from these transactions are included in the statement of financial position and are settled on normal trade terms.

Other amounts due to related parties and the terms of settlement are described separately in the financial statements and the notes thereto.

9. Remuneration:

The corporation's six directors received remuneration of $1,500 (1981 — $1,700) during the fiscal year. The five senior officers received in aggregate $266,029 in salaries for 1982 (1981 — $271,362). As of April 30, 1981 the number of senior officers was reduced from six to five.

10. Contingencies:

The corporation, being the defendant to several unresolved statements of claim, has provided for them in its accounts in accordance with advice received from its legal counsel. Any difference which may arise, between amounts provided and amounts experienced, will be accounted for in the period in which the claims are resolved.

At October 31, 1982 the corporation had not completed negotiations with the International Woodworkers of America (I.W.A.) Local 1 - 184 for the contract which expired March 31, 1982. Adjustments, if any, which may be required on finalization of the contract will be included in next year's accounts as a prior period adjustment.

11. Subsequent event/Reforestation Fund:

The corporation has agreed to contribute $600,000 to the Hudson Bay Reforestation Trust Fund in January, 1983. This fund will be used for reforestation in 1983.